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### **The Political Economy of the 2003 Reform of the Common Agricultural Policy**

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**THE POLITICAL ECONOMY OF THE 2003 REFORM  
OF THE COMMON AGRICULTURAL POLICY**

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**Abstract**

The 2003 reform of the European Union's Common Agricultural Policy (CAP) under Commissioner Fischler was the most radical in the history of the CAP. This paper analyzes the causes and constraints of the reform. The paper argues that an unusual combination of pro-reform factors came together in the first years of the 21<sup>st</sup> century, making this reform possible.

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## **Introduction**

The Common Agricultural Policy (CAP) has been under fire since its creation in 1958 at the Stresa conference and its introduction in the 1960s. Nevertheless, it has long been considered by foes, rightly or wrongly, as a policy impossible to reform substantially, because of staunch opposition to reform from powerful farm and agribusiness lobbies and because of the complications of European politics.

In 1995 Austria joined the European Union and Franz Fischler, a then largely unknown Austrian politician, became EU Commissioner in charge of the Common Agricultural Policy (CAP). There was surprise that a new member state had been given the powerful Agricultural Commission chair, but no major expectations surrounded his arrival in Brussels. However, a decade and two tenures later, Fischler left behind a CAP that was dramatically changed from the one he inherited and he is recognised by friend and foe as the architect of the most radical reforms of the CAP.

This paper tries to answer the question what made the radical reforms, and in particular the 2003 reforms, of the CAP under Commissioner Fischler possible? The paper analyses how various factors contributed to the political outcome, or in other words, what determined the political economic equilibrium on agricultural and rural development policy in the EU in the first years of the 21<sup>st</sup> century.

The paper is related to studies on the political economy of the CAP, such as Ackrill (2000), Grant (2000), Josling (2008), Moyer and Josling (2002), Olper (1998), Pappi and Henning (1999), Ritson and Harvey (1997), and others; and to analyses of agricultural policy reforms in other countries, such as Gardner (2002) and Orden et al (1999, 2008).

The analysis in the paper draws on a combination of insights from recent studies, interviews with experts and those involved in the decision-making, and of analytical work by the author.

The paper is organised as follows. It first briefly summarizes the key elements of the Fischler reforms and then discussed what made the Fischler reforms radical – and what not. Then a conceptual framework is presented, which is used to interpret how various factors affected the political outcome. In the next sections, these influencing factors are discussed in greater (empirical) detail. The final section concludes.

## **The reforms**

There were several reforms prepared and implemented over the two terms that Franz Fischler was Commissioner for Agriculture and Rural Development of the EU, which spanned almost a decade (1996–04). Some of the reforms, such as the Agenda 2000 package, were very important. Still, his name is most closely associated with the reform of 2003, which at the time was generally referred to as the ‘mid-term review’ (MTR), a term that in hindsight does not do justice to the extent and substance of the reform package that was decided in 2003. These reforms are assessed by many experts as the most radical reforms of the CAP since its creation.

The essence of the reforms is well summarised in various publications, including those by the European Commission. The 2003 reforms contain the following main elements.<sup>1</sup> First, the key innovation of the reforms was the introduction of the single farm payment (SFP) on the basis of historical entitlements (although with some flexibility of application), decoupling a large share of CAP support from production. Second, two new instruments, ‘cross-compliance’ and ‘modulation’, were introduced. Cross-compliance requirements ensure that the SFP is only paid to farmers who abide by a series of regulations relating to the environment, animal welfare, plant protection and food safety. Modulation refers to the shift of funds to rural development policies (i.e. from pillar I to pillar II) by reducing transfers to the larger farms. Third, the reforms introduced changes in several market organisations, especially in the dairy and rice sectors, by

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<sup>1</sup> See Tables A1-A3 in appendix for more details.

increasing dairy quotas and reducing rice support prices, replacing them with direct support to be integrated in the SFP.

Yet the 2003 MTR cannot be seen in isolation from other reforms and policy decisions. This point not only relates to Agenda 2000, but also to several decisions on the EU budget of which the CAP budget takes a very large share – and is thus a major aspect in the negotiations for the budget decisions. In particular, the budgetary decisions in autumn 2002, at the European Council summits in Brussels and Copenhagen, are considered by Fischler himself to be major achievements. The 2000–06 financial framework was decided at the Berlin meeting of 1999, where also the Agenda 2000 CAP reforms were agreed. In the following years, however, there was strong pressure to dramatically cut the CAP budget in order to finance and to reduce the costs of enlargement among other things.

The European Council's decisions in autumn 2002 not only enabled the fitting of enlargement into the 2000–06 financial framework, importantly by imposing the gradual introduction of direct payments in the new member states. At the Brussels summit of October 2002, it was also decided that the CAP would continue to receive very generous funding from the EU budget. More specifically, for 2007–13 the total budget for expenditures on market interventions and direct payments was fixed at the 2006 level in real terms. In nominal terms, these expenditures could increase by 1% per year. In addition, rural development spending was not constrained by these maxima. While some judged these decisions as putting a maximum on future CAP spending, Fischler and his colleagues saw this as a major political achievement: the CAP budget was not just saved for the current financial framework, but even up to 2013 – and the cuts were much less than what had been demanded at the start of the Prodi cabinet in 2000.

Such an outcome is hard to assess as a 'reform' of the CAP – rather quite the contrary. Fischler and his colleagues nonetheless argue that without real reforms of the CAP (such as in the 2003 MTR) this budgetary outcome would not have been possible – and possibly vice versa, as we discuss further.

## **Were the 2003 reforms radical reforms?**

Several experts define the 2003 reforms as the most radical reforms since the beginning of the CAP (see e.g. Pirzio-Biroli (2008) and Olper (2008)). This assessment primarily refers to the content of the MTR but to some extent also refers to the timing and the approach of the reforms.

There is a general consensus that the decision to decouple farm support from production was a very radical change in the CAP. In addition, the policy shift from quantity and the public regulation of markets and prices to a policy focused on quality, market-based initiatives and rural development is also an important and in some sense dramatic change from a strategic view of what the CAP should accomplish. Some of these elements, in particular that of rural development, had already been initiated in Agenda 2000.

Yet, there are also significant elements of the 2003 reforms that were decidedly less than 'radical'. Some of these arose from the political compromises that were needed to get the overall reforms through – they were, one might say, aspects of the 'reform package'. The modesty of other achievements can be attributed to other reasons. First, a key fact is that total farm support has only marginally been affected by the reforms and remains essentially the same as before. Moreover, there is very little change in the distribution of CAP benefits across countries and farms. Second the reforms had no effect on EU border protection (except for the rice sector (Olper (2008))). While this fact is less discussed, it remains a very important one, in particular in the perspective of the Doha round and in view of the claims that the CAP is now much less market distortive. Third, the much emphasised shift to a rural development policy should be judged not just on the base of the wording but also on the base of the funding reallocation between pillar I and pillar II. Judging on these bases, the reforms are much more modest than the official statements. Moreover, during the budgetary negotiations following the Fischler reforms, when it was necessary to cut some of the CAP budget, it was the budget for pillar II that was reduced, not that of pillar I payments. In fact, it is a remarkable observation that, despite all of Fischler's

emphasis on rural development, the budget for pillar II was lower at the end of his tenure than it was before the 2003 MTR. Fourth, a considerable compromise came by giving in to British demands to discard the ceiling on payments to farms – which would disproportionately affect the UK with its large farms and landowners. Another compromise came by giving in to German demands to implement the decoupled payments on a regional basis instead of on a historical basis.

An aspect of the MTR that is a notable change from the past is the decision to anticipate rather than react to problems stemming from external changes. In the past CAP reforms were always in reaction to problems – such as market surplus and burgeoning public stocks (e.g. the introduction of dairy and sugar quotas in the 1980s) or trade conflicts (e.g. the MacSharry reforms in the 1990s) (Josling, 2008a). In contrast, the MTR and Agenda 2000 were reforms that to a considerable extent anticipated necessary changes. This was an important change.

Possibly the most radical features of the reforms were their timing and the audacity of the European Commission in proposing them. Immediately after the Berlin meeting of the Council of Ministers in 1999, where the final decisions on the Agenda 2000 reforms of the CAP were made, commentators suggested that the discussion on the next reform package could start, as the Berlin reform agreements were insufficient to address the problems facing the CAP in the next decade.<sup>2</sup>

Yet, for many involved (outside a core group at the Commission), the MTR was considered exactly what the term said: a review to check halfway through the Agenda 2000 implementation period (2000–06) whether any (minor) adjustments were needed to guide the CAP through the process of enlarging the EU with 10 new member states. When Fischler announced his plans in the summer of 2002, the opponents of the reforms (which at that time were most of the member states) were dumbfounded and the reactions were generally of shock and dismay – Pirzio-Biroli (2008) refers to farmers' organisations considering the proposal a "sort of Molotov cocktail". The farm unions and the member state governments were confronted with a series of reform proposals

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<sup>2</sup> Several commentators evaluated the Agenda 2000 decisions as insufficient to address the problems facing the CAP (e.g. Brenton & Núñez Ferrer, 2000; Núñez Ferrer & Emerson, 2000; Buckwell & Tangermann, 1999; Burrell 2000).



that went way beyond what they considered a ‘review’ or ‘minor adjustments’. The Commission was accused of going beyond its mandate.

In summary, one can conclude that there is wide agreement that some key elements of the 2003 reforms were indeed very radical. Other elements of the 2003 reforms were certainly much more modest reform achievements. Nevertheless, the radical elements make the 2003 reforms unique.

### **Conceptual framework**

What made these radical reforms possible? To explain this, I make use of a conceptual framework drawing on the theoretical research on EU decision-making (e.g. Crombez (1996, 2000), Steunenberg (1994), Tsebelis (1994)) which has been applied to CAP decision-making by Henning and Latacz-Lohmann (2004) and Pokrivcak, Crombez and Swinnen (2006).

Pokrivcak, Crombez and Swinnen (2006) develop a theory of CAP reform and identify the conditions which create, what they refer to as, “the optimal reform context”. According to this theory, CAP reform is more likely when (a) an external change that moves policy preferences in a pro-reform direction, (b) this external change is large, (c) the policy preferences of the EU Commission are pro-reform, and (d) the EU voting rules require a lower majority.

The intuition is the following. *Ceteris paribus*, an external change that alters the political preferences of the member states will lead to a demand for policy adjustments. Still, effective policy adjustments will only occur if the change is large enough, because of the decision-making procedures in the EU that induce a ‘status quo bias’. If the external change is sufficiently large, the final outcome will depend on the preferences of the Commission – which sets the agenda. The Commission can make a proposal within a certain policy range, which will ultimately be approved. Hence, if the Commission has strong pro-reform preferences, it can pick the strongest reform option that is possible within the policy range that can be approved.

The extent (or size) of the external change that is required for change, and thus the likelihood of reform for a given change, is directly related to the voting rules. Under the unanimity rule, those most opposed to reform hold an as-if veto over the reform decision. Under simple majority rule, any change that affects the preference of the median (country) voter will lead to a reform. Under a qualified majority rule, an external change needs to be sufficiently large for a minimum coalition of countries (those required to form a qualified majority) to be better off with a policy change than with current policies.

The final outcome will also depend on the number of decision-makers and their preferences, and on the “quality” of decision-makers agents and agenda-setters. First, differences in quality of the political agents, for example due to experience or to political capital of various agents, may obviously also play a role. Second, the number of decision-makers (and with it the distribution of preferences) has not stayed constant over the years. In particular, consecutive enlargements of the EU have affected the number of member states, and with it the heterogeneity of preferences of member state governments (Henning and Latacz-Lohmann, 2004).

In the rest of the paper I will use this framework to show that radical CAP reform was possible in 2003 because several factors which in combination contribute to “an optimal reform context” – or “the perfect storm” – were all present at the time of the decision-making, and in the period leading up to it. More specifically, these factors included important external changes that caused a strong pressure for reform, a Commissioner who wanted (a particular kind of) substantive reforms, institutional EU reforms allowing qualified majority on major CAP reforms, enlargements affecting the voting balance, an experienced Commissioner turning out to be a great political strategist and tactician, and a series of exceptional circumstances affecting the ultimate coalition formation.

In the next sections, I first discuss empirical evidence on each of these factors, including external changes, institutional reforms, changes in the agents involved, reform preferences, the experience of the Commission, the political coalitions, etc. We then use this evidence to analyse

to the extent to which these conditions have affected the Fischler reforms. We start with the external changes.

### **External changes and pressures for CAP reform**

There is an extensive literature documenting that changes in external factors, such as world market prices and exchange rates, affected the level of agricultural protection in the EU or CAP reform (e.g. Olper, 1998, 2008). Josling (2008a,b) argues that in the early years of the CAP the main external pressures on the CAP were macroeconomic factors and that budgetary and trade relations (in particular pressure from the US according to Moehler (2008)) played an increasingly prominent role in CAP changes. Ahner and Scheele (2000) list five motives, all related to external factors, for the Agenda 2000 reforms: market developments (including food safety), growing environmental concerns, the need for more attention to rural development, increasing trade liberalisation, and smoothing the way for enlargement. There is general consensus that the Eastern EU enlargement was indeed a crucial factor in the Agenda 2000 reforms.

I will now discuss external pressures which have been mentioned as important factors in the 2003 Fischler reforms: eastern enlargement of the EU, the World Trade Organisation (WTO) negotiations, other trade negotiations, the budget, and food safety and environmental concerns.

#### *Eastern enlargement and the WTO*

Eastern enlargement was to take place in the years after the MTR. Agriculture was a central component of this process for several reasons.<sup>3</sup> The Agenda 2000 reforms were intended to address the enlargement constraints imposed on the CAP, but the reforms were partially diluted in the political negotiations at the Berlin 1999 summit (see further) and the final Agenda 2000 decisions differed in some aspects from the Commission proposals. A key question at the time was whether a further reform of the post-Agenda 2000 CAP was still needed to accommodate the

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<sup>3</sup> For more details on the relationship between Eastern enlargement, agriculture, and the CAP, see also Hartell & Swinnen (2000) and Tangermann & Banse (2000).

eastern enlargement. By 2001, even with the diluted Agenda 2000 decisions, enlargement was less likely to create a conflict with WTO commitments than predicted five years earlier (in the 1990s CAP world). There was uncertainty due to uncertainty about the evolution of CEEC productivity, world markets and exchange rates (Swinnen 2001, 2002).<sup>4</sup> Still, the likelihood of a WTO conflict was expected to depend more on the outcome of the upcoming negotiations in the WTO millennium round than on the post-Agenda 2000 enlargement effects. If, as a result of a new WTO agreement, the EU needed to significantly reduce export subsidies or change the implementation of the direct payments, the CAP would have to be reformed, irrespective of enlargement.

Although no one expected the next round on agriculture to be easy, in the late 1990s it looked as if it could be a rather straightforward exercise, at least in concept. The previous round had resulted, if not in much effective liberalisation, at least in a framework to build on in the next round. Specifically, three major areas of negotiation had been identified and measures of progress had been agreed upon and used in the negotiations (indicators on ‘market access’, ‘aggregate measure of support’ and volumes and total amount of export subsidies). An optimistic negotiation scenario was that negotiators would merely focus on these areas and negotiate further reductions in these indicators.

By 2000, however, it had become clear that this was too optimistic. The growing discontent of the developing countries with the WTO introduced them as a major and new factor in the negotiations. Not only did this complicate the negotiations, it also brought much uncertainty.

#### *Other trade negotiations*

The WTO was not the only trade arrangement affecting EU agricultural and food markets and the CAP. Pascal Lamy, while still Commissioner for Trade, undertook several trade initiatives to stimulate both multilateral and regional trading agreements. Among the latter were initiatives

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<sup>4</sup> Given the expected agricultural production impacts of enlargement and their trade implications, the budgetary effects of extra intervention purchases and export subsidies were expected to be relatively minor. The main budgetary effects were to come if direct payments were to be given to CEEC farms – which was still to be negotiated.

for liberalising trade between the EU and Mercosur. Another Lamy initiative, the Everything but Arms (EBA) trade proposal, was to allow all imports of the 48 poorest countries without restrictions into the EU market. The EBA proposal was heavily opposed by interest groups from the rice, sugar and banana sectors. These lobby efforts delayed the implementation of the EBA proposal, but the EBA agreement had considerable implications for some sectors, such as sugar, and further raised awareness of the international effects of the CAP and contributed to the sense of a need to reform the CAP.

#### *Food safety and environmental concerns*

With rising incomes, consumer demands for food quality and safety had increased. This general trend was reinforced by several food safety crises in the years before the MTR. These crises put food safety, animal welfare and environmental concerns on top of the agricultural policy agenda. Both the BSE crisis and foot and mouth disease (FMD), which started in the UK and spread to other countries afterwards, and the dioxin crisis, which started in Belgium, had EU-wide effects through trade restrictions imposed by other countries. Probably even more importantly, extensive media coverage provoked strong public reactions.

The strong reactions of consumers and the general public on this issue contrasted sharply with their rather passive attitude vis-à-vis traditional agricultural policy issues in the past decades. Following these crises, there were strident calls for the overhaul of the EU's agricultural policy. Consumer groups, environmental organisations and government officials emphasised that large government subsidies for farming practices that did not adhere to appropriate food safety, environmental and animal welfare standards were unacceptable.

There were considerable political impacts. In Germany, the minister of agriculture and the minister of health affairs had to resign in the wake of the discovery of BSE in the country. The German ruling coalition appointed Renate Künast, a senior member of the Green Party, as the new Minister of Consumer Protection, Food and Agriculture in 2000. She called for a fundamental rethinking of the EU's agricultural policy, including a large shift to organic farming. In the UK,

the Department of Agriculture was replaced by the Department of Environment, Food and Rural Affairs, giving a clear signal of the change in policy priorities. In Belgium, two ministers, including the minister of agriculture, had to resign following the discovery of dioxin in the food chain and the dioxin scandal contributed to a major electoral defeat of the governing parties. The EU budget was also affected by significant additional expenditures because of both increased intervention purchases and additional policy measures to contain BSE and FMD. .

*A loss of legitimacy and calls for reform*

These various elements, some traditional and others new, combined to increase pressure for change of the CAP. Franz Fischler himself summarised these important developments as that the CAP had lost its legitimacy among the EU public. In particular, the fact that the CAP was increasingly seen as at the same time hurting EU trade interests, having negative effects on the environment and unable to address the food safety concerns of EU consumers was turning into a major call for reform.

These elements also affected the budgetary discussions taking place in around 2000. They compounded the call for radical changes in the CAP at a time when ministers of finance and other members of the European Commission, searching for budget cuts or reallocations within the EU budget, were already demanding significant budget cuts for the CAP. These were vital issues on the verge of eastern enlargement, a process that was expected to greatly increase the CAP budget if the CAP was not reformed to contain the costs and which entailed the need for extra budgetary means for the structural funds, with the new member states having much lower incomes than the EU-15 average. Hence, at the start of the Prodi Commission there was a view among many that the CAP budget should be cut, and a reduction target of 30% was mentioned. This view was reinforced by the Sapir report which argued that EU expenditures on agriculture should be drastically reduced.

## **Institutional reforms and changes in voting rules**

The voting rules had been altered by several institutional reforms of the EU prior to 2003, including the Single European Act (SEA) and the Treaties of Maastricht and Nice. Crombez (1996, 2000) analyzes the impact of these institutional changes on EU decision-making. Most relevant for our analysis are the changes in voting rules initiated by the SEA, as these introduced qualified majority voting in EU policy for decision-making where the unanimity rule had been used before.

In the 1990s, qualified majority voting was increasingly being used for minor CAP decisions but major CAP decisions were often still decided by unanimity. In this respect, the 1999 CAP reforms (Agenda 2000) were a watershed: for the first time a major country (France) was outvoted in relation to a major CAP reform.

For the MTR decision-making, this change in EU decision-making rule on agricultural policy played a very important role. As I will explain later, Fischler and his team spent a lot of effort trying to put together a winning coalition and breaking a blocking minority coalition.

## **Changes in the political actors**

There were important changes, in who was involved in the decision-making and reform proposal preparations.

### *Enlargement*

Two enlargement processes played a role: the previous enlargement of 1995 in terms of EU member state preferences, and the eastern enlargement in terms of an expected change in future preferences and more difficult decision-making.

First, the enlargement of the EU in the previous decades had affected both the aggregate preferences and the distribution of the votes in the EU. In particular, the accession of Sweden, Finland and Austria to the EU in 1995 has been argued to affect the political equilibrium (Olper, 2008). However, the effect on the CAP appears nuanced. While this enlargement certainly

affected the camps of defenders and opponents of the CAP as it existed, it did not do so in a simple, linear way.

The pro-reform camp was reinforced with a vocal partner by the arrival of Sweden, which had gone through a process of radical liberalisation of its agricultural policy in the early 1990s, and which was forced to re-introduce government regulations and subsidies under the CAP with its accession to the EU. Sweden has consistently been a strong critic of the CAP and a voice for reform.

The two other countries however, Finland and Austria, had a protectionist agricultural stance before joining, as their small farms in disadvantaged areas depended on subsidies. After accession, they continued to support farm subsidies. However, as high-income countries with small-scale farmers, many based in mountainous or arctic regions, Finland and Austria were more sympathetic to supporting strategies for rural development, agri-environmental policies and multifunctionality of their rural areas, rather than large subsidies for quantity production – which mainly benefited the larger producers of the main crops.

Enlargement obviously reduced the share of votes of the established players in the EU, such as France and Germany. In addition, for cultural reasons, none of these three countries were ‘natural allies’ of France, a country that traditionally played a very important role in opposing CAP reforms.

Second, the anticipation of eastern enlargement played a role as well. With 10 Eastern European countries joining, some of which have large agricultural sectors and an even larger farm population, the Commission realised that reform would not become easier after enlargement.<sup>5</sup> Therefore, the expected eastern enlargement gave a sense of urgency to the reform proposals: they had to be decided before eastern enlargement took place.

#### *Commission preferences*

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<sup>5</sup> See Henning and Latacz-Lohmann (2004) for a formal analysis of this issue.



A large share of the commissioners wanted reform of the CAP, although not all in the same direction. Commission President Romano Prodi and several of the other commissioners wanted the share of the CAP in the EU budget to be reduced, and substantially so. Commissioner for Trade Pascal Lamy wanted the CAP to be reformed in order to allow the EU to take the initiative in the Doha round and not always be on the defensive. In addition, the Commissioners were reflecting consumer and environmental concerns pressuring for change.

As Commissioner for Agriculture and Rural Development, Fischler was keen to leave a legacy in terms of having reformed the CAP towards a course that he considers sustainable and consistent with his view of European agriculture – an Austrian perspective one could argue. A CAP that is more in line with broad rural development, the environment, the production of quality and safe food, etc., differs from the “old CAP”, which was focused on quantity, output and prices.

After the Agenda 2000 reforms, Fischler was strongly motivated to use the MTR of 2003 to propose significant reforms of the CAP. In a rather unexpected way, the food safety and environmental crises of 1999–2001 had reinforced this agenda. The sense of urgency surrounding a major rethinking of the CAP contributed to pushing the general political agenda closer to his personal preferences.

Another important factor is experience. *Ceteris paribus*, every commissioner in his/her second term has gained experience and hence tends to be more effective in pursuing policies than in the first term. In Fischler’s case the Agenda 2000 negotiations had also made him better prepared for new reforms (I will discuss this in more details further).

Because of these factors – Fischler’s reform attitude and experience – French President Jacques Chirac personally intervened with Prodi in 2000 at the start of the Prodi Commission not to reappoint Fischler as the Commissioner responsible for agriculture. Prodi himself, however, wanted CAP reform and he wanted someone who could deliver it. He denied Chirac’s request and chose Fischler to continue in his position – and in this way made an important contribution to CAP reforms, although Prodi later never intervened in the actual CAP discussions.

### *Pressure groups*

The 2003 MTR discussions and political tactics also transformed the politics-as-usual in the CAP. Traditionally, the main pressure group involved in the CAP negotiations had been the farm unions. They put pressure on their agriculture ministers and on the Commission and tried to obtain as much as the other ministers would allow. But the MTR negotiations brought consumer groups and environmental groups to the political table more forcefully than had happened before.

In fact, Fischler reached out purpose to these groups in selling his MTR proposals. He saw them as his main audience in re-establishing public support for a reformed CAP. He deliberately designed a media strategy and a series of presentations to communicate with these groups and to win their support for his reforms. His strategy was that, even in countries that were not in favour of CAP reforms per se, the public was still very much in favour of policies that improved the rural environment, enhanced animal welfare, ensured food safety and food security, etc.

### *The administration*

Finally, an important potential source of opposition against the reforms was within the Commission itself: the traditional DG for Agriculture thinking of the administrators. The preparation of the reforms was kept within a tight circle of six top officials (of the cabinet and of the administration). A group of administrators concerned with policy analysis within the DG for Agriculture were asked to assess the effects of some of the proposals, but without being fully informed. Once the reform proposals were finalised, an essential mission was to convince the rest of the DG for Agriculture and Rural Development that this was the right strategy.

In this respect, a number of earlier institutional changes may have contributed as well. The administrative reforms introduced some years before in the European Commission removed the hold of France on the top job in the DG for Agriculture. In addition, many of the old-style DG for Agriculture officials, whose careers had developed in the early years of the CAP, had left and younger persons had joined in the past decade, such that thinking within the DG for Agriculture was much more open to, for example, environmental and economic arguments (Moehler, 2008).

## **A complex reform puzzle**

It is clear from the discussion above that there were strong pressures to reform and that internal changes had enhanced the opportunity for reform. However, almost all the participants in the reform debate and most outside observers which I interviewed argue that the success of the reforms was far from certain at the outset. Most thought that the chances were slim *ex ante*. For example, Pirzio-Biroli (2008) claims that one of the most experienced experts on CAP reforms, the well-known former Commissioner for Agriculture Guy Legras, thought that Fischler would never succeed in getting his proposal approved. Another senior Commission official illustrated the general scepticism with the story that three months before the Fischler reforms were approved, the minister of agriculture of his home country bet him a bottle of champagne that the proposals would never make it through the political process.

Before going into the political tactics, I discuss first the complexity of the reforms. The reform process was very complex because of both the timing and the interaction, and sometimes contradiction, of the various elements.

*Reform + reform = More or less reform?*

The various demands for reform were not all consistent and in some sense appeared to weaken rather than reinforce one another. For example, the food safety crisis significantly contributed to the demand for reform of the CAP, and probably more than anything else put CAP reform on the political agenda and raised public awareness about agricultural policy. The interactions between environmental and food safety concerns and subsidies were especially strong in the livestock sector where BSE caused many problems, while at the same time CAP subsidies stimulated overproduction and exports were subsidised.

Yet, the reform ideas coming out of this agenda tended to go in the direction of more regulation rather than less, and of more subsidisation (albeit redirected) rather than less. For example, few of the environmental groups and parties who pressured for a radical rethinking of

agricultural policy in the EU considered trade liberalisation and WTO negotiations a positive development. Their stance contrasted with the more traditional pressure for CAP reform mostly from economists and some politicians arguing for less regulation and lower subsidies, and favouring more liberalised trade and markets. For example, while ‘old reformers’ tended to look rather sceptically upon the concept of ‘multifunctionality’, which the EU was pushing in the WTO negotiations as an argument to maintain a large part of its agricultural support system, ‘new reformers’ tended to appreciate this concept as it is consistent with their desire to subsidise and protect a certain farming system and rural way of life.

In conclusion, the pressure to reform the CAP had clearly increased by 2001, but it did not contribute to a more focused picture on what direction the reforms would take. Clearly, there was reinforcement in the sense that ‘*something* needs to be done’, but there was much less common ground on *what*. In fact, some of the reform ideas pointed in opposing directions.

Nonetheless, in Fischler’s mind (and his team) the various pressures were cristalyzing into a consistent reform strategy. In hindsight, it appears that the argument that the BSE crisis had nothing to do with agricultural policy (e.g. Tangermann, 2001) may have been true from an economic perspective, but not from a political one. In fact, in the type of political strategy that Fischler and his team had in mind, they fitted very well together.

#### *Timing: Finding the right reform moment*

The timing was also complex. Several major developments, all of which affected each other, overlapped: the WTO negotiations, the enlargement negotiations, the enlargement process itself, the Agenda 2000 implementation, the mid-term reviews, elections in member states etc (see table 1). To see the complexity, we should put ourselves back in the situation in 2001.<sup>6</sup> The implementation of Agenda 2000 was ongoing, but the full impact would not be realised until 2006. If the Agenda 2000 decisions were not changed, the dairy quotas would remain unchanged until 2006 and would continue in some form until 2008. Upcoming elections in the member states,

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<sup>6</sup> For a more detailed review of the issues and complexities in 2001, see Swinnen (2001).

and in particular in France and Germany, complicated the CAP decision-making process. No difficult decisions could be taken regarding the reform of the CAP before the French elections in the spring of 2002. Furthermore, some crucial decisions needed to take account of the German elections in autumn 2002. Germany played a prominent role in the discussions given the sensitivity surrounding both the budgetary implications and the environmental issues and the German government wanted to show some results before the elections.

In 2001, despite much pressure from the CEECs, there was not yet an agreement on a time schedule for the enlargement. Negotiations of the accession chapters were continuing with the CEECs. The most important remaining issues were the allocation of direct payments and quotas to CEEC farms and the CEECs' request for an exception for foreigners to purchase agricultural land during a transition period after accession. But since the Prodi Commission had made accession one of its top priorities, it wanted some CEECs to accede during its tenure, which ran out in January 2005.

The WTO millennium round was, already then, behind schedule, with little progress being made since the Seattle meeting. Negotiations on agriculture had continued with the submission of negotiation positions by the various partners and the WTO discussions were gaining some momentum in 2001 with the arrival of the Bush administration and Trade Representative Robert Zoellick on the US side. However, it was unclear then whether and, if so, when the Bush administration would obtain fast-track negotiation authority from the US Congress. The EU also faced the end of the Peace Clause, which was scheduled to run out in 2003.

Another major issue in 2001 was how EU accession was possible within the financial framework for 2000–06. CEEC governments were insisting on obtaining full payments from the CAP and the structural funds, while those losing out (net contributors and current beneficiaries of the structural funds) opposed this.

The interaction of enlargement, WTO negotiations, the EU budget negotiations and CAP reform was complex in terms of both content and timing. In summary, even with substantial

pressures for reforms and institutional changes making it easier, the reforms were highly complex. But the second term of Commissioner Fischler ran out in January 2005. With all this in mind, 2002–03 must have looked like the best – or the only possible – timing for the next CAP reform, also since accession was not likely to occur before 2004.

### **Franz Fischler: strategist and tactician**

Everybody inside the Commission with whom I spoke discusses Franz Fischler's role in the 2002–03 reforms in quasi-heroic terms. Some argue that what really made the reforms succeed was the combination of Fischler's strategic vision and political tactics and the Commission officials' effort and preparation. They argue that Fischler not only had a clear strategic view on where he wanted the reforms to go, he also used masterful political tactics in getting there.

In preparing the reforms and guiding them through the political process, experience mattered as well. The general experience of a second-term commissioner and specific experience with the Agenda 2000 reforms made Fischler better prepared for the reform battle. He was a stronger player for those who opposed his reform proposals. In general, a second-term commissioner has more experience in how deals and decisions in the EU are made and can(not) be achieved. Probably even more importantly, his experience with Agenda 2000 and in particular Chirac's unusual intervention at the Berlin European Council meeting in 1999 (as discussed below) made it apparent to Fischler that he had to anticipate any potential political obstacle and strategy in order to avoid the fate of the Agenda 2000 reforms.

#### *Preparation of the reforms*

Fischler had learned from his own earlier reforms and from the experiences of earlier commissioners that if specific proposals come out early, vested interest groups, such as the commodity groups, will mobilise quickly and reform efforts may be undermined and blocked before they are even launched. Therefore, Fischler put together a small inner circle of six officials to prepare the entire reform package. As is well documented by Pirzio-Biroli (2008) and Syrrakos

(2008), a small group of senior Commission officials, drawing on a substantial amount of study and analysis by experts within the Commission administration, were preparing the details of the proposals and calculating potential effects. The six were high-level Commission staff, partly from his cabinet and partly from the DG for Agriculture. Everybody else was kept in the dark or on a need-to-know basis. Commission services were asked to do preparatory analyses and impact studies without being informed of the entire picture.<sup>7</sup>

While hints about the reforms were given to the public in 2001 (as discussed below), there was a complete communication stop by the Commission in the spring of 2002. This was the time of the campaigns for the French elections, which took place in May and June of 2002. During this period, Commission officials were forbidden to speak in public on CAP reforms.

Fischler announced his plans in the summer of 2002. The opponents of the reforms publicly expressed shock and dismay. The member states were confronted with a series of reform proposals that went way beyond what they considered a ‘review’ and ‘minor adjustments’. The Commission was accused of going beyond its mandate.

What is interesting when observing these reactions of surprise and dismay is that the proposals actually contained very little that had not yet been announced by Fischler in various speeches in 2001. In fact, different public speeches, which were made publicly available through the media and through the Commission’s website, contained much of what was formally proposed by Fischler in the summer of 2002. For example, Fischler’s address “The road ahead for EU agricultural and rural policy” to the CDU congress in Berlin on 7 May 2001 and his Opinion Article in the *Financial Times* of 9 May 2001 contain all the major ingredients of the Fischler reform proposals of a year later. Fischler explained later that his public addresses and writings were used to test the waters of the various ideas that the Commission intended to include in the proposals.

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<sup>7</sup> There are some notable stories surrounding the secrecy of the reform preparations, including the distribution of proposals on specially marked paper. Syrrakos (2008) even refers to a break-in at the Commission offices.

It appears with hindsight that opponents, and in particular France, did not take Fischler's presentations and public expressions of his thoughts seriously, either because they underestimated his determination to see through these reforms or they overestimated their own political and diplomatic strength and capacity to block them (as discussed further below). In a personal interview, Fischler later confirmed that this was also roughly his interpretation of the facts.

A final element of Fischler's strategy was a communication plan to build support for the reforms from a non-traditional political coalition across the member states. Instead of focusing on the farm unions, Fischler went out of his way by giving presentations, interviews to the media and participating in conferences to secure support for his reforms from environmental organisations and consumer groups. When the reform proposals were announced, the traditional negative reactions emerged from farm unions. In the past they had dominated the political discussions on the CAP. Now other organisations, such as consumer groups and environmental organisations joined the debate and presented a different view. As a result, the discussions were more balanced than in previous reform efforts.

#### *Getting the Commission to approve*

Many commissioners in the Prodi Commission had demanded budget cuts for the CAP and substantial reforms. As Pirzio-Biroli (2008) explains, overcoming the scepticism in the Commission was not easy. But Fischler managed because of his reputation as a reformer based on his first term and because he managed to tackle some of the key concerns of the public, by focusing on and addressing concerns related to food safety, the quality of food, environmental issues and the CAP's negative effect on the trade negotiations. What certainly also played a central role was the fact that by the time the MTR proposals were discussed the future budget for the CAP had been fixed separately by a deal between Chirac and Chancellor Gerhard Schröder at the Brussels European Council summit in 2002.



The Commission ultimately voted in favour of the reform proposals, with just two commissioners opposing: Michel Barnier of France and Loyola de Palacio of Spain, both reflecting their home country's opposition.

This support from the Commission was important not just at the European level, but also to affect the positions of the member states. Commissioners have influence in their home capitals. Especially the support of Pascal Lamy, as Commissioner of Trade, was very helpful given that Lamy was the lead negotiator of the EU in the Doha round and his position was considered important by many member states that were worried about the impact of the CAP on the Doha round. Paradoxically, Lamy's support may have helped the least in his own country, France, where Chirac distrusted Lamy because Lamy had been appointed by the previous Socialist government.

#### *Counting the votes: the role of the Iraq war*

As explained earlier, qualified majority voting had become the rule for CAP reform decisions. When the MTR proposal was announced, only a few member states supported the proposal. The UK and Sweden, the member states customarily in favour of CAP reforms, immediately supported the proposal. Yet, most other member states were sceptical at best, pointing to specific problems, or they were clearly opposed to the reforms.

After some time, three groups emerged: the 'pro-reform group', which in addition to the UK and Sweden also included the Netherlands and Denmark; a 'middle group' that included Greece, Belgium, Luxembourg, Finland, Austria and Italy; and the 'anti-reform group' with France, Spain, Germany, Portugal and Ireland.

The middle group contained a set of countries that were not completely opposed but had specific problems with the reforms. Based on experience, the Commission thought it could win the support of most of the countries in this group since it was predominately made up of small countries, and by providing concessions in specific areas they could be convinced – or 'bought' in a more cynical perspective – to support the reforms. Another reason why the middle group was

not considered a major problem was because it included Luxembourg, which has few votes, Greece, which held the presidency and wanted a successful conclusion and summit, and Belgium, which did not have a unified voice with three ministers of agriculture.

The anti-reform group was strong with three large countries (France, Spain and Germany) and it easily controlled a blocking minority. The anti-reform group was not a natural coalition, however. In particular, Germany played a special role. Since her appointment, Renate Künast, the politician from the Green Party who had been appointed the German minister responsible for the CAP, had been a vocal advocate of CAP reform towards a more environmentally friendly CAP – and should have been a natural ally of Fischler. Although this was indeed the case initially, when the reform ideas were being discussed and during the early reform preparation, political alliances that were more influential later interfered with the Fischler reforms and with the Künast alliance in particular.

Traditionally, a joint Franco–German position on any issue was sufficient to make it a de facto EU decision. This political axis had continued to work very well under the regimes of Chancellor Helmut Kohl and President François Mitterrand. Although both had opposing political views (Kohl as a German Christian-Democrat and Mitterrand a French Socialist), they had managed to overcome their differences to form a very powerful and successful European force. However, there was no chemistry between the new leaders of France and Germany. Gerhard Schröder and Jacques Chirac disliked one another and did not manage to form a bond or a strong Franco–German coalition. But then important international events would change this.

The Iraq war, launched in 2001, split the large countries of the EU down the middle. The governments of Spain under Prime Minister José Maria Aznar, Italy under Prime Minister Silvio Berlusconi and the UK under Prime Minister Tony Blair joined US President George Bush in what Bush referred to as “the coalition of the willing”. Both France and Germany strongly opposed the Iraq war. Hence, somewhat unexpectedly, Chirac and Schröder found themselves as allies in opposing the Iraq war.

Furthermore, on the eastern enlargement of the EU, France and Germany had opposing views but managed to come to an agreement. Germany was a strong proponent of eastern enlargement while France was not enthusiastic. In the end, a deal was made. As one Commission official summarised it, “the French agreed with the enlargement if the Germans agreed to pay the bill” – which included future CAP financing for the EU-15. This was cemented in the 2002 Brussels Council meeting where, among other things, a decision was made with far-reaching implications for the CAP: CAP pillar I payments were fixed until 2013 to ensure French farmers and politicians that CAP benefits would continue to come long after enlargement.

All this mattered for the CAP reform proposals of Fischler. France was strongly opposed. For Schröder, who was in some international isolation with this strong anti-Iraq war stance, maintaining the general Franco–German international political coalition because of the Iraq war and enlargement was more important than the preferences of the German government (and especially those of his Green Party coalition partner) on CAP reforms.

Facing this strong opposition coalition against his reforms, Fischler then decided to use the Iraq war for his own purposes. As Chirac was using the war coalition to keep Schröder on his side in the CAP debate, Fischler went out to seek support for his reforms from the opposite side, more specifically from the Blair–Aznar camp. Fischler went to Blair to ask him to approach Aznar and convince him to switch sides and support the CAP reforms. Blair, who had supported the CAP reforms all along, agreed on one condition: the Commission had to drop the capping of support to large farms – which would hurt the large UK farms and landowners– from the package of reform proposals. Fischler agreed, and the rest is (so far undocumented) history: Blair approached Aznar and Fischler went on a nightly mission to Madrid to seal the deal. Spain switched camps in the CAP reform debate and left the opposing coalition severely weakened.

In the days following these political changes, Künast, who was herself in favour of the basic reform proposals, managed to re-take the initiative in Germany on the CAP reforms and to change the German stance in the reform debate. But, like Blair, she asked for adjustments of the reform

proposals in exchange for her support. Künast liked the idea of cross-compliance, but wanted to implement the decoupled payments not based on what farms had received in the past (which became known as the ‘historical model’) but instead pay farms in the same region the same payment, independent of what they had received in the past (later termed the ‘regional model’).

Fischler opposed this idea, not so much for the economic effects, but rather for the political ones. He feared that the redistribution of subsidies among farms, which was implicit in the regional model, could increase the opposition to the CAP reforms on the part of farm interests. Olper (2008) emphasizes the lack of redistribution of support by the Fischler reforms as a key element of the reform proposals. By limiting the redistribution and emphasising the more efficient instrument of decoupling for enhancing farm incomes, Fischler had avoided a lot of potential opposition.

Nonetheless, Künast was adamant on this issue because she wanted to use the new subsidy system to support more extensive and organic farming systems, which traditionally had not been receiving as much support as the intensive, conventional production systems.<sup>8</sup> Fischler ultimately gave in to Künast’s demands in order to obtain the German votes. In the final proposal, Germany was allowed to introduce the regional model. In fact, other countries also took the opportunity to use the regional model – and some other variations such as the hybrid model (Ciaian, Kancs and Swinnen, 2008).

Finally, Ireland also switched positions, but for an entirely different reason. Irish farm unions strongly opposed the reforms. Farmers themselves, however, had a different perspective. They were convinced that the reforms could be good for them as they provided them with direct income support and at the same time allowed them more freedom in their decisions. The Irish

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<sup>8</sup> Interestingly, the introduction of the regional model in Germany had the opposite effect of Künast’s intentions as she (and her advisers) had underestimated (or ignored) the impact of the subsidies on the land market. With subsidies given across the region, the value of farm land went up and extensive farm systems were no longer profitable with high land prices; a switch had to be made to more intensive production systems.

position switched, despite farm union opposition, as the Irish minister sided with the preferences of the grassroots farmers.

In the end, France found itself isolated in its opposition. And even within France, the opposition was no longer unanimous, even within the FNSEA – the main French farm union. French grain farmers increasingly liked the idea fearing that the alternative would be worse, meaning possibly lower payments in the future. Apparently, Chirac, when confronted with some of the FNSEA leaders arguing in favour of the reforms, referred to this as the “Fischlerisation of France”. Facing a loss in qualified majority voting, France then tried to join the winning camp and to extract compensations and adjustments from the Commission reform proposals. But they were in a weak negotiating position and finally ended up with little.

#### *Getting the decision through the Council*

For the final Council meetings, Fischler made further institutional interventions (Syrrakos 2008). First, he insisted on having the final negotiations in the Agriculture Council solely with the ministers. From the extensive discussions in the autumn of 2002, he had learned that in the opposing countries, such as France, the civil servants were often more opposed to the reforms than the politicians were. The civil servants frequently had strong links to vested interests and farm unions. By removing the civil servants from the final negotiations in the Council, Fischler wanted to reduce whatever opposition was left in the final Council meeting. The meeting lasted for six hours. At the end of it, the revised Fischler reform proposal was approved.

Second, Fischler had learned from experience with the Agenda 2000 reforms that securing the votes was not sufficient. One had to make sure the voting positions were actually fully carried through and that the vote by the ministers of agriculture was not subsequently overruled by the heads of state, as had happened with Chirac’s intervention in Berlin in 1999. To avoid a last-minute intervention, Fischler made arrangements with Greek Prime Minister Costas Simitis, who was to chair the Council meeting. Simitis was interested mainly in having a successful summit during the Greek presidency, and wanted to avoid any problem that could undermine such an

outcome. Together they ensured that Chirac would not have the opportunity to repeat what he did in Berlin in re-opening the decision by the ministers of agriculture.

### **The paradoxical impact of Jacques Chirac**

President Chirac played a very important role in the Fischler reforms, but in many ways differently from how he had intended. To understand his influence we have to go back to 1999. During the Agenda 2000 reform discussions, France had opposed some of the main reform proposals and voted against them in 1999. Yet, French opposition had been insufficient to stop the reforms. In the vote in the Agriculture Council in February 1999, there was a qualified majority of votes in favour of a reform package, which was close to the Commission's proposals.

To the surprise of many, Chirac managed not only to bring up the issue during a meeting of the European Council in Berlin in March 1999, but also to re-open the compromise decision. In the final negotiations, and despite Fischler's opposition, he succeeded in convincing the other heads of state to approve a weakened version of the reforms.<sup>9</sup> By his masterful political act, Chirac had achieved what he considered a major political victory, protecting French farmers from an overzealous reform-minded Commission. Later he also intervened with Prodi in an unsuccessful attempt to prevent Fischler from remaining in his post for a second term.

These battles set the stage for another battle during Fischler's second term, but this time some things were different.

First, at the conclusion of the Berlin meeting, Fischler managed to obtain – what looked at the time like – a small compromise. To anticipate problems from partial reforms, a mid-term review was to be undertaken around 2002–03, re-examining market developments as well as the situation of the agricultural budget, as a clearer perspective emerged on enlargement, WTO

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<sup>9</sup> Instead of 30% as proposed by the Commission, the Council decided to cut the beef support price only by 20%; instead of a proposed cut of 20% for cereal support prices, it was decided at 15%; and finally, the dairy reforms were postponed to 2005, instead of starting in 2000 as proposed by the Commission.

negotiations, etc.<sup>10</sup> Chirac's intervention in Berlin thus allowed a review of agricultural policies in 2003 – something that otherwise would not have been the case. The next major policy review would have been at the end of 2006, and the decisions may have been taken after Fischler had left office. Now Fischler had the opportunity to introduce another set of reforms.

Second, as explained above, Chirac's unusual intervention in Berlin made it clear to Fischler that he had to anticipate any potential political obstacle and strategy in order to avoid the fate of the Agenda 2000 reforms. In the event that Chirac were to try the same tactics at the Greek European Council meeting in 2003, Fischler – and the Greek presidency – were prepared.

Third, it is difficult to imagine that the way Chirac had played the game (first by re-opening the decision above the heads of the ministers of agriculture, and later by trying to block Fischler's reappointment) did not have a psychological effect on Fischler. It would be understandable if it made the reform battle personal to him, and if not, it seems likely that it at least strengthened Fischler's resolve to push forward with the reforms.

Fourth, his successes with Agenda 2000 (and in many previous CAP discussions) may have blinded Chirac to both the determination of Fischler in preparing reforms that were even more radical and their chances of success. It probably also led Chirac to underestimate his political opponents during the MTR debate and may have caused him to be complacent.

In summary, one could make a strong case that Chirac's dramatic political intervention in Berlin in 1999, in which he weakened the Agenda 2000 reforms, served to make the most radical reforms of the CAP possible by allowing an evaluation of the CAP in 2003, which otherwise would not have been possible. In addition, it even made the success of the Fischler reforms more likely, by reinforcing the determination of his opponent, by giving warning to avoid all possible political and diplomatic booby-traps, and by convincing the other side to prepare better for the debate and the decision-making.

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<sup>10</sup> The Council also asked the Commission to prepare a review report on the sugar regime by early 2003, as part of its recent (May 2001) decision to prolong the current regime for another five years (with some changes).

### **Reduced influence of farm unions?**

Arguably, the EU farm unions had less impact on both the debates and the outcomes of the Fischler reforms than on any previous CAP policy decision. In fact, the former Portuguese Minister of Agriculture Arlindo Cunha, who had played a very important role in earlier CAP reforms, argued recently that the position of farmers and their unions has changed dramatically over the past decade and a half. He asserted that there had been huge farm opposition to the MacSharry reforms in 1992, much less opposition to the Agenda 2000 reforms in 1999 and hardly any effective opposition to the MTR in 2003.

Why was this? Although a conclusion on this development certainly merits further analysis than is undertaken here, several factors may have been pertinent. First, many member-state farm unions were taken by surprise by the Fischler proposals and were unprepared for the debate on the decoupling of farm support – as explained earlier. Second, they may have been unprepared for the new political environment in which other non-governmental organisations and groups, such as environmental and consumer groups, increasingly take a vocal part, and moreover, that these groups were being taken seriously by political leaders. The latter argument reflects the fact that, with a declining number of farmers in the EU-15 and with growing citizens' awareness and concerns about environmental and animal welfare issues, farm unions may have become less 'powerful' on issues of the CAP, in terms of both setting the agenda and influencing its outcome. A third potential factor is the gradual move towards less coupled support, from traditional price interventions and border protection in the 1980s to direct payments in the 1990s and to decoupled payments in the 2000s. Decoupled payments are – as economists have always argued – a more effective instrument in transferring income to farmers, and farmers may have come to realise this, muting their opposition.



## **The impact of economic arguments and analysis**

In several of my interviews it was mentioned that a series of studies and analyses had a considerable impact on the CAP reform process.

First, Fischler himself referred to the importance of an OECD study on decoupling. In particular, the fact that the OECD study demonstrated that with a decoupled support system twice as much of it remains with the farmer ('ends up in the pocket of the farmer') than with the existing support system was a very influential idea. Fischler and his colleagues saw the salience of the argument not only from an economic perspective, but also and to an even greater degree from a political one. If the CAP was using half the EU budget, they considered it essential to convince the EU taxpayer that this money was well spent and was effectively used. The analysis by the OECD reinforced the argument in favour of decoupling.

In this respect, it is worth further analysing Fischler's motives to push for decoupling and compare these with those of economists who had long argued in favour of less distortionary instruments. Economists, based on their focus on efficiency and reducing distortions, had long preferred non-distortionary (lump sum) transfers, of which the type of decoupled payments that Fischler proposed were a welcome improvement.

While the standard economic arguments were never convincing for Fischler, he came to similar conclusions in favour of decoupling from a more political reasoning.<sup>11</sup> Fischler looked at the reforms from the standpoint of how he could save the support for European agriculture in the 21<sup>st</sup> century with new demands and new constraints being imposed on European farmers and with new opportunities. Decoupling in this way was an attractive choice for several reasons. It was an improvement in terms of the efficient use of EU funds, given taxpayer pressures on the budget, and an improvement in terms of reducing trade distortions, with pressure from inside and outside the EU to remove the CAP as an obstacle to a WTO agreement. Also, it was an improvement from

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<sup>11</sup> In a sense, one could interpret Fischler's logic as an example of Becker's (1983) argument that politicians will choose (economically) efficient policy instruments as this enhances their political objectives.

an environmental perspective as it reduced incentives to use land intensively and the introduction of cross-compliance further enhanced the environmental benefits. Fischler and his team emphasised that while the WTO negotiations were not an initial motive for considering decoupling, obviously, once they started thinking about the option, they saw it could be very useful for the Doha negotiations as well.<sup>12</sup>

A second set of important studies in the reforms were in-house analyses prepared by the DG for Agriculture and Rural Development (DG-AGRI) under the guidance of Dirk Ahner, the Deputy Director-General who had also led analytical work in preparing for Agenda 2000 and the EU enlargement process. Several Commission officials interviewed by the author highlighted the importance of this work. The extensive in-house discussions and analyses made DG-AGRI well prepared when the discussions came out into the open. Since nobody outside a small Commission circle had expected Fischler to propose full decoupling, the opponents had little preparation and little analysis. In contrast, the DG-AGRI team was ready to address any critique and comment on their proposals with careful analysis and counterarguments, all of which had been prepared in the previous years and months.

The assessment by many Commission officials involved was that because of the lack of preparation, the country positions were often inconsistent and the DG for Agriculture, which was much better prepared, was able to point out the inconsistencies and thereby weaken the opposition. The crucial point was that decoupling was a good reform, and their analysis showed it.

### **Franz Fischler: Killer or saviour of the CAP?**

The previous discussion depicts the Fischler team at the Commission as one to introduce major changes to the CAP. The acrimonious reactions following the launch of the proposals involved accusations of the Commission siding with opponents who wanted to ‘scrap the CAP’.

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<sup>12</sup> Olper (2008) argues that the WTO cannot have been the main factor behind the MTR reforms because the MTR reforms do nothing for the main constraint in these discussions, the tariffs.

Yet, Fischler and his team had a very different take on their proposals. They saw their proposals not as an instrument to kill the EU's agricultural policy, but instead as a way of saving it. Pirzio-Biroli (2008, p. 124) puts it thus:

*“Scrapping the CAP [was] not an option. ...The Fischler reform was aimed at helping the CAP and its farmers reconcile the needs of modernisation and restructuring with the acknowledgement of their community function, and the recognition of the positive externalities generated by agriculture, and rural activities and spaces. ...Fischler acted in the conviction that the EU needed to keep a strong agricultural policy, but periodically update it in order to adapt it to new realities.”*

From this viewpoint, it is interesting to note that according to Fischler himself, the concept of decoupling was not chosen for the reasons most often mentioned by economists, i.e. to reduce distortions (see above), but because it was the best thing to do to save the CAP.<sup>13</sup>

Furthermore, while discussions on the importance of the reforms focus mostly on the 2003 MTR (and to some extent on the Agenda 2000 reforms) Fischler himself sees the achievements of the 2003 reforms much more in tandem with the 2002 budgetary agreement. In his view, the 2003 reform (proposals) allowed him to convince those most opposed to the CAP within the European Commission to agree to a much smaller budget cut than they had asked for.

Fischler argues that Prodi himself (and with him many commissioners and ministers of finance) had targeted a 30% budget cut of the CAP when the Prodi Commission took office. By proposing a series of bold reforms that reduce the negative effects of the CAP on the environment, on market distortions and on the WTO negotiations, and that enable the CAP to fit within a concept of sustainable rural development, Fischler and his team would in turn reduce the ammunition of those demanding large budget cuts and create a new support base for the CAP. Only in this way was he able to convince the Commission to table a proposal (which was later approved) with much more limited cuts for the next financial period (i.e. up to 2013). Fischler saw

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<sup>13</sup> Notice, of course, that both perspectives are closely related. Transfer efficiency is high, exactly because distortions are low; also, the WTO may allow decoupled payments precisely because they do not (or minimally) distort international markets and trade.

this as a major achievement of the reforms. From this perspective, they ‘saved the CAP’ as opposed to scrapping it.

## **Conclusions**

The 2003 MTR under Commissioner Franz Fischler was the most radical reform in the history of the CAP, albeit that some aspects of the reform package represent quite limited (or no) reforms. The reform puzzle was complex, as was the timing. Several major developments, all of which affected each other, overlapped: WTO negotiations, enlargement negotiations, the enlargement process, the Agenda 2000 implementation, budget discussions and the mid-term reviews.

From the analysis in this paper we conclude that three (sets of) factors came together in the period around 2002. They created the ‘perfect storm’ which create a strong demand for radical CAP reforms and sufficient pressure to overcome opposition to such reforms. The three factors were, first, the effect of institutional reforms; second, changes in the number and quality of the political actors, and, third, the optimal conditions for reform within a given institutional framework.

In the years before the reform, there was strong pressure to reform because of external and internal factors. The main pressures were the WTO and other trade negotiations, the budget, food safety and environmental concerns and to a lesser extent enlargement. These elements, some traditional and others new, combined to increase pressure for change. Franz Fischler himself summarised these developments as that the CAP had lost its legitimacy among the EU public. The fact that the CAP was increasingly seen as at the same time hurting EU trade interests, having negative effects on the environment and unable to address food safety concerns of EU consumers was turning into a major call for reform. These developments compounded calls for radical changes to the CAP at a time when ministers of finance and other members of the European Commission were searching for budget cuts or reallocations within the EU budget.

The most critical institutional change was the Single European Act, which introduced qualified majority voting for CAP decision-making where the unanimity rule had been used before. The agents involved in the agenda-setting and decision-making had also changed. The enlargement of 1995 reduced the share of the votes of the established players in the EU. Sweden was a strong voice in favour of CAP reforms. The 2003 MTR discussions and political tactics also transformed the politics-as-usual of the CAP. Traditionally, the main pressure group involved in the CAP negotiations had been the farm unions. Consumer groups and environmental groups played a more prominent role in the CAP reform debate than previously. Finally, many of the old-style DG Agriculture officials, whose careers had developed in the early years of the CAP, had left and younger persons had joined in the past decade, such that thinking within the DG Agriculture was much more open to environmental and economic arguments.

The combination of Fischler's experience, his strategic vision, his political tactics and the Commission officials' effort and preparation played a vital part. The reforms were prepared in relative secrecy by a small inner circle of officials while experts within the Commission administration were calculating the potential effects of the reforms. During the campaigns for the French elections in the spring of 2002, there was a communication stop. In-house analyses were prepared by DG Agriculture officials to counter critiques with careful arguments.

The proposals initially faced a strong anti-reform group, with three large countries (France, Spain and Germany), which controlled a blocking minority. Unexpectedly, the Iraq war played a decisive role. It initially made allies out of Chirac and Schröder in the opposition to the reforms – despite Germany's earlier demand for reforms. But Fischler used the Iraq alliances to manoeuvre Spain out of the anti-reform group through Blair's links with Aznar. Fischler paid a price in having to drop the capping of the subsidies (for Blair's support for his strategy) and by allowing regional instead of historically-based payments (to secure the German votes later).

President Chirac played an important role, but in ways differently than intended. First, Chirac's intervention at the 1999 Council in Berlin initially looked like a major political victory,

but ultimately allowed a review of agricultural policies in 2003 – something that otherwise would not have been the case. Second, it made Fischler anticipate any potential political obstacle and strategy in order to avoid the fate of the Agenda 2000 reforms. Third, it reinforced Fischler's resolve with the reforms. Fourth, his earlier successes in blocking reforms may have caused him to become complacent. In combination, Chirac's earlier interventions opposing CAP reforms contributed to the most radical reform of the CAP.

The opposition to reform by the farm unions was less successful than in previous CAP decisions. Farm unions were taken by surprise by the Fischler proposals and were unprepared. They also faced a new political environment in which environmental and consumer groups were taken seriously by political leaders. However, decoupled payments are more effective in transferring income to farmers, and farmers may ultimately have realised this, which could contribute to explain their limited opposition.

Finally, Fischler and his team saw their reforms not as an instrument to reduce the importance of the CAP, but as a way of saving it. Bold reforms to reduce its negative effects on the environment, on market distortions and on the WTO negotiations, and to make it consistent with sustainable rural development, reduced the pressure for large budget cuts and created a new support base for the CAP. In this way major budget cuts for the next financial period were avoided. Fischler saw this as a major achievement of the reforms. From this perspective, the Fischler reforms contributed to the survival of the CAP, rather than to its demise.

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## APPENDIX

*Table A.1 Agenda 2000 reforms of the CAP*

Market support	Reductions are to be made in market support prices of 15% for cereals, 15% for milk and milk products from 2005 and 20% for beef and veal. The reduction in institutional prices will be phased in gradually and the lower prices will be partly offset by an increase in direct aid payments. Direct payments in the beef and dairy sectors will be paid to member states in the form of national financial allocations.
Environmental	Two pillars are introduced to the CAP: market and income policy ('first pillar'), and the sustainable development of rural areas ('second pillar'). Agri-environmental measures are the compulsory component of the member states' rural development programmes. The principle of cross-compliance is introduced: the optional use of reductions of the direct payments for enforcing statutory environmental legislation and the so-called 'specific environmental requirement'. Cross-compliance is compulsory under the Disadvantaged Area Scheme.
Enlargement	Under the SAPARD scheme, €20 million per year is set aside for structural and rural development programmes. Priorities include investing in farms, developing processing and marketing structures, improving veterinary and plant health controls, and encouraging economic diversification in rural areas.
Modulation	Optional modulation of the direct payments is made to farmers under the CAP based on criteria that can include the workforce on the holding, the overall prosperity of the holding or the total amounts of payments granted under support schemes (up to 20% of the direct payments); the money remains in the member state to be spent on accompanying measures.
Financial	For the period 2000–06, the Council decided on a financial framework of an average level of €40.5 billion plus €4 billion over the period 2000–06 for rural development as well as veterinary and plant health measures. Finally, each year €20 million is made available for the SAPARD programme.

*Sources:* European Commission, "Europe's Agenda 2000 Strengthening and widening the European Union", Brussels (1999) ([http://www.ec.europa.eu/agenda2000/public\\_en.pdf](http://www.ec.europa.eu/agenda2000/public_en.pdf)); European Commission, *Agenda 2000 – A cap for the future*, Brussels (2003) ([http://ec.europa.eu/agriculture/publi/review99/08\\_09\\_en.pdf](http://ec.europa.eu/agriculture/publi/review99/08_09_en.pdf)); European Council, Presidency Conclusions of the Berlin European Council, 24–25 March 1999, SN 100/1/99, Brussels (1999) ([http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/ACFB2.html](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/ACFB2.html)).

*Table A.1 Mid-term review reforms of the CAP*

Decoupling	A single farm payment is introduced for EU farmers, independent of production. Limited coupled elements may be maintained to avoid abandonment of production (Single Payment Scheme). Aid is decoupled for cereals, oilseeds, protein crops, flax, hemp, linseed, durum wheat supplement, starch potatoes (40%), grain legumes, rice, seeds, dried fodder, beef and veal, sheep and goats, milk (from 2006–07). There are optional derogations at the level of the member state.
Market support	Revisions made to the market policy of the CAP include <ul style="list-style-type: none"> <li>• asymmetric price cuts in the milk sector – the intervention price for butter will be reduced by 25% over four years, which is an additional price cut of 10% compared with Agenda 2000; for skimmed milk powder, a 15% reduction over three years (as agreed in Agenda 2000) is retained;</li> <li>• reduction of the monthly increments in the cereals sector by half, while the current intervention price will be maintained; and</li> <li>• reforms in the rice, durum wheat, nuts, starch potatoes and dried fodder sectors.</li> </ul>
Environmental	Decoupled payments are linked to the respect of environmental, food safety, animal and plant health and animal welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition (cross-compliance). Rural development policy is strengthened with more EU money and with new measures to promote the environment, quality and animal welfare and to help farmers to meet EU production standards starting in 2005.
Modulation	Direct payments are reduced (modulation) for the larger farms (direct payments $\geq$ €5,000) to finance the new rural development policy: by 3% in 2005, by 4% in 2006 and remaining at 5% from 2007 onwards.
Farm advisory system	Advice on farm management processes, notably in relation to the environment, food safety and animal welfare, is available for farmers on a voluntary basis; in 2010 the European Commission will decide whether it will be made compulsory.
Financial	A mechanism is created for financial discipline to ensure that the farm budget fixed until 2013 is not overshoot: direct aid will be adjusted when forecasts indicate that spending in the relevant areas of the CAP (market expenditure and direct payments) will exceed established ceilings, reduced by a safety margin of €300 million.

*Sources:* European Commission, “CAP reform summary”, *Newsletter Special Edition*, Brussels, (July 2003)([http://ec.europa.eu/agriculture/publi/newsletter/capreform/special\\_en.pdf](http://ec.europa.eu/agriculture/publi/newsletter/capreform/special_en.pdf)); European Commission, “CAP Reform – A Comparison of Current Situation, MTR Communication (July, 2002), Legal Proposals (January, 2003) and Council Compromise (June, 2003)”, Brussels (2003) ([http://ec.europa.eu/agriculture/mtr/avap\\_en.pdf](http://ec.europa.eu/agriculture/mtr/avap_en.pdf)); European Council, Regulation No. 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy, OJ L 270/1, 21.10.2003 (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:270:0001:0069:EN:PDF>).

*Table A.3 EU financial agreements and the CAP*

Berlin European Council, 1999	<p>Financial framework 2000–06 and SAPARD programme for the new member states (NMS)</p> <p>The financial framework sets an average level of €40.5 billion + €14 billion of expenditures over the period for rural development as well as veterinary and plant health measures. This framework should allow agricultural expenditures to stabilise over the period. The Council decided on the amounts in heading 1 in the table below. During the Copenhagen summit, the Council decided on the adaptation of the financial perspective for an EU of 25 countries, which raised the amounts provided for this heading in 1999.</p> <p><i>Table A1.3a Financial framework 2000–06 (€ million 1999 prices)</i></p> <table><tr><th></th><th>Heading 1</th><th>CAP expenditure (excl. rural development and accompanying measures)</th><th>Rural development and accompanying measures</th></tr><tr><td>2000</td><td>40,920</td><td>36,620</td><td>4,300</td></tr><tr><td>2001</td><td>42,800</td><td>38,480</td><td>4,320</td></tr><tr><td>2002</td><td>43,900</td><td>39,570</td><td>4,330</td></tr><tr><td>2003</td><td>43,770</td><td>39,430</td><td>4,340</td></tr><tr><td>2004</td><td>42,760</td><td>38,410</td><td>4,350</td></tr><tr><td>2005</td><td>41,930</td><td>37,570</td><td>4,360</td></tr><tr><td>2006</td><td>41,660</td><td>37,290</td><td>4,370</td></tr></table> <p>The applicant countries were facing major difficulties in adapting to a rather complex Community and completing the institutional process of privatisation and transformation of agricultural structures. Concentrating on the particular needs for agriculture, the Council made available €520 million of pre-accession support each year for the SAPARD programme.</p>		Heading 1	CAP expenditure (excl. rural development and accompanying measures)	Rural development and accompanying measures	2000	40,920	36,620	4,300	2001	42,800	38,480	4,320	2002	43,900	39,570	4,330	2003	43,770	39,430	4,340	2004	42,760	38,410	4,350	2005	41,930	37,570	4,360	2006	41,660	37,290	4,370
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2006	41,660	37,290	4,370																														
Brussels European Council, 2002	<p>Introduction of the direct payments in the NMS</p> <p>Direct payments are to be introduced in the NMS in accordance with the following schedule of increments expressed as a percentage of the level of such payments in the Union:</p> <p style="text-align: center;">2004, 25% 2005, 30% 2006, 35% 2007, 40%</p> <p>and thereafter in 10% increments so as to ensure that the NMS reach in 2013 the support level then applicable in the current EU.</p> <p>The total annual expenditure for market-related expenditure and direct payments in a Union of 25 cannot exceed the amount in real terms of the ceiling of category 1.A for 2006 agreed in Berlin for the EU-15 and the proposed corresponding expenditure ceiling for the NMS for the year 2006. The overall expenditure in nominal terms for market-related expenditure and direct payments for each year in the period 2007–13 shall be kept below this 2006 figure increased by 1% per year.</p>																																
Copenhagen European Council, 2002	<p>Budget 2004–06 for the NMS</p> <p>The budget for agriculture in the years 2004–06 is increased with extra money for the 10 NMS. These amounts are given in the table below.</p> <p><i>Table A1.3b Agricultural budget 2004–06 for the NMS (€ million 1999 prices)</i></p> <table><tr><th></th><th>Heading 1</th><th>CAP expenditure (excl. rural development and accompanying measures)</th><th>Rural development and accompanying measures</th></tr><tr><td>2004</td><td>1,897</td><td>327</td><td>1,570</td></tr><tr><td>2005</td><td>3,747</td><td>2,032</td><td>1,715</td></tr><tr><td>2006</td><td>4,147</td><td>2,322</td><td>1,825</td></tr></table>		Heading 1	CAP expenditure (excl. rural development and accompanying measures)	Rural development and accompanying measures	2004	1,897	327	1,570	2005	3,747	2,032	1,715	2006	4,147	2,322	1,825																
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*Sources:* European Council, Presidency Conclusions of the Berlin European Council, 24–25 March 1999, SN 100/1/99, Brussels (1999) ([http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/ACFB2.html](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/ACFB2.html)); European Council, Presidency Conclusions of the Brussels European Council, 24–25 October, SN 14702/02, Brussels, 26 November (2002) ([http://ue.eu.int/ueDocs/cms\\_Data/docs/pressData/en/ec/72968.pdf](http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/72968.pdf)); European Council, Presidency Conclusions of the Copenhagen European Council, 12–13 December, SN 1591/02, Brussels, 29 January (2003) ([http://ue.eu.int/ueDocs/cms\\_Data/docs/pressData/en/ec/73842.pdf](http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/73842.pdf)).

*Table A.4. Key timing elements as perceived in 2001*

**Agenda 2000**

Mid-term reviews	2002–03
Full implementation	2006

**Internal EU politics**

French elections	May and June 2002 (parliament & president)
German elections	September 2002
Prodi Commission	Until January 2005
Fischler as a commissioner	Until January 2005

**EU presidencies**

Belgium	Autumn 2001
Spain	Spring 2002
Denmark	Autumn 2002
Greece	Spring 2003

**Enlargement**

CEECs' participation in elections for EU parliament	June 2004
First accession wave	Uncertain (2004?)

**WTO**

Seattle conference	November/December 1999
Sessions on agriculture	Since January 2000
Qatar conference	November 2001
Peace Clause	Until December 2003

